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RUEHLC/AMEMBASSY LIBREVILLE 1016
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RUEHNM/AMEMBASSY NIAMEY 2980
RUEHKH/AMEMBASSY KHARTOUM 0474
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SUBJECT: CHAD OIL: GOVERNMENT WAVES THE CARROTS

REF: NDJAMENA 419

11. (SBU) Summary: Working relations between the Government of Chad and the Esso-led oil consortium continue to improve. It appears that the President has been persuaded that taking too aggressive an approach at a time when the Consortium is weighing future investment decisions could jeopardize future revenues. End Summary.

WE WILL TREAT YOU NICELY

12. (SBU) Esso Director Stephane de Mahieu met the Ambassador June 21 to discuss developments following the adoption of Chad's new Petroleum Code (reftel). Mahieu reported two positive events: First, the President had issued a decree "re-empowering" the National Petroleum Coordinator to serve as a "one-stop shopping" trouble-shooter for the Consortium, reporting to the Presidency. Secondly, the President had convoked Esso representatives on June 18 and stated (in the presence of the Minister of Petroleum and the National Coordinator) that the first mission of the National Coordinator would be to bring the rest of the government's actions in line with existing agreements with the Consortium and to make sure that the harassment of the Consortium stopped. Differences between the GOC and the Consortium were to be resolved amicably by the National Coordinator - without resort to courts or penalties. As a result, Mahieu stated - with some amazement - the low-level harassment reported reftel had ceased: work permits were now being issued, and taxes and customs issues were being resolved.

...BUT THE CONVENTION WILL BE RENEGOTIATED

13. (SBU) In the same meeting, President Deby declared the existing conventions obsolete and stated that the Government would be ready soon to renegotiate. He indicated that those present at the meeting would be the government's negotiating team: the National Coordinator (Ahamat Acyl), the Minister of Petroleum (Nadingar), the Director of the President's Civil Cabinet (Mahamat Hissein) and the former Minister of Petroleum (Nasseer) who is now a Presidential Adviser. (Comment: This means that the National Assembly Commission which had heretofore been charged with this task - but which did not have any petroleum sector expertise - is now de facto out of the picture. End Comment).

14. (SBU) President Deby also asked the Consortium to do a better job of supporting and growing local businesses, increasing local

content and putting in place the long-delayed topping plant in order to provide Chad with a reliable supply of refined oil. He reiterated that he wanted monitoring of the pipeline (for the purpose of calculating royalties) to take place at the pipeline in Kome rather than on shipboard in Kribi, Cameroon.

GOOD COP ON THE SMALL STUFF

15. (SBU) Mahieu attributed the turnaround in approach to the fact that the President's advisors on petroleum (including the new National Coordinator Acyl) realize that taking too aggressive an approach could have a huge impact (and possibly jeopardize) future operations at a time when the Consortium is weighing whether to continue exploration. At the end of 2008 Esso will have to make a decision on whether to keep on exploring or to turn over their blocks to the government. Consortium production was currently at 130,000 - 140,000 barrels a day. Some 20,000 - 30,000 should be added in the next couple of weeks, and production should be back up to 150,000 by next year. But production rates after that depended on investments being put in place now to take care of excessive water in the oil and in how aggressively Esso would decide to invest to increase the recovery rate (currently at 30% of oil in place.) Mahieu speculated that President Deby was "playing Good Cop on the small stuff" so that Esso would not be able to stall renegotiation by arguing that the GOC was in violation of existing conventions.

CHEVRON PRESENCE

16. (SBU) The Ambassador also met with new Chevron representatives on June 25. Still bruised from last year's tax dispute with the government, Chevron has decided to second a Chevron representative to Esso to work in the Public Relations Office. Chevron also intends to make its own social and educational investments in Chad order to increase visibility as a consortium partner.

CHINESE DEVELOPMENTS

17. (SBU) Updating on Chinese developments, Mahieu believed that the Chinese were "stuck between what they'd like to do and what the Government wants them to do." The Chinese would prefer to work in the Bongor area (in the South) where they say they have made a discovery, but the GOC wanted them to work on the Lake Chad area and build a mini-refinery there to supply the Chadian market. This was of no interest to the Chinese (and Mahieu stated that Esso - "sitting on the best Lake Chad acreage already" - did not believe that there was enough oil to sustain a mini-refinery). If China went ahead with a mini-refinery on Lake Chad, it would be as a "give-away" with a view to getting something better from the Government. In any event, Mathieu stated that no production could be up and running before 2009.

COMMENT

18. (SBU) The new realism on the part of the Government of Chad is welcome. President Deby appears to be getting sound counsel on how to keep the oil consortium happy (and investing) and is approaching the upcoming renegotiation intelligently. Wall